

HOGAN & HARTSON  
L.L.P.

LINDA L. OLIVER  
PARTNER  
DIRECT DIAL (202) 637-6527

COLUMBIA SQUARE  
555 THIRTEENTH STREET, NW  
WASHINGTON, DC 20004-1109  
TEL (202) 637-5600  
FAX (202) 637-5910

September 25, 1998

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Magalie Roman Salas  
Secretary  
Federal Communications Commission  
1919 M St., N.W.  
Washington, D.C. 20554

**Re: Deployment of Wireline Services Offering Advanced  
Telecommunications Capability, CC Docket No. 98-147**

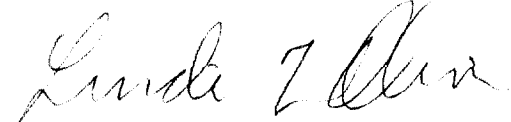
Dear Ms. Salas:

Attached for filing in the referenced docket, pursuant to the procedural orders in this proceeding, FCC 98-188 (released August 6, 1998), and DA 98-1624 (rel. August 12, 1998), on behalf of Qwest Communications Corporation ("Qwest"), are the original and four copies of Qwest's comments.

We have also submitted under separate cover a copy of the comments to Judy Boley and a copy of the comments and a diskette containing the comments to Janice Myles of the Common Carrier Bureau and to International Transcription Services.

If you have any questions, please contact me.

Respectfully submitted,

  
Linda L. Oliver  
Counsel for Qwest Communications  
Corporation

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Before the  
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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of

Deployment of Wireline Services Offering  
Advanced Telecommunications Capability

CC Docket No. 98-147

COMMENTS OF QWEST COMMUNICATIONS CORPORATION

Joseph T. Garrity  
Senior Director,  
Legal, Regulatory and  
Legislative Affairs and  
Corporate Secretary  
Qwest Communications  
Corporation  
555 17th Street  
Denver, CO 80202  
(303) 992-1621

Peter A. Rohrbach  
Linda L. Oliver  
Hogan & Hartson, L.L.P.  
Columbia Square  
555 Thirteenth Street, NW  
Washington, DC 20004  
(202) 637-5600

Counsel for Qwest Communications  
Corporation

Earl W. Comstock  
Sher & Blackwell  
Suite 900  
1850 M Street, N.W.  
Washington, D.C. 20036  
(202) 463-2514

September 25, 1998

## SUMMARY

Qwest Communications Corporation is a multimedia communications company that offers a full range of voice, data, video and information services domestically and internationally. Qwest is close to completing the construction of a \$2.5 billion state-of-the-art, high-capacity nationwide advanced fiber optic network. That network, which will be capable of operating at speeds as high as OC-192, is ready and able to bring enormous benefits to consumers across the nation. But Qwest and its customers are eager for access to high-bandwidth last mile connections, which remain the almost exclusive province of the incumbent local exchange carriers (ILECs).

Qwest strongly supports the Commission's efforts to make it easier for competitors of the incumbent LECs to help meet this need by adopting stronger collocation and unbundling rules. But Qwest urges the Commission not to permit the ILECs, who remain the ubiquitous local network owners, to shelter in a weak Section 272-style separate affiliate their advanced network capabilities. Competitors cannot possibly duplicate those ILEC advanced last mile facilities -- even if they can employ ILEC conditioned loops -- to serve customers broadly and efficiently. These facilities and capabilities must stay with the ILEC and remain available to competitors if there is to be a vigorously competitive and far-reaching advanced services marketplace in the future.

In Section 251(c)(3), Congress recognized that the economics of local networks dictate that if there is to be broad-based local competition, it will depend on competitors' ability -- in whole or in part -- to employ the ILEC's network. The

Commission itself recognizes that the Act draws no distinctions between circuit-switched and packet-switched technology, between old and new network investment, or between voice and data services

Yet the Commission's separate affiliate proposal rests firmly on a false factual premise: that ILEC competitors can economically deploy duplicate xDSL facilities in competition with an unregulated ILEC affiliate that houses all the advanced network capabilities of the ILEC. The cost of collocating DSLAMs in every central office (and remote terminal) and of constructing a duplicate interoffice packet network to every central office would simply be prohibitive. The same is true for other high-speed advanced loop and transport facilities (such as DS-3, OC-N, dark fiber, and others).

Without access to these facilities *including the electronics* (whether in the central office or in the loop plant), competitors will be constrained in their ability to deliver advanced services. If the ILECs are permitted to put all their network advancements in an unregulated affiliate, competitive provision of advanced services will be severely limited. Most Americans will have to live with an ILEC monopoly provider of advanced services. Nor would granting the ILECs an effective monopoly speed the deployment of advanced services. Competition, not monopoly status, is what has historically led to innovation and speedier investment.

In Qwest's view, any ILEC affiliate that owns local network facilities is an ILEC under the Act and therefore is subject to the Section 251(c) market-opening provisions. Even under the Commission's Non-Accounting Safeguards

analysis, the correct line to draw is between retail services (which the Commission held could be provided by a Section 272 interLATA affiliate without being subject to ILEC requirements) and network facilities (which the Commission held were subject to ILEC requirements if transferred to the interLATA affiliate). At minimum, then, the Commission should rule in this proceeding that any facilities ownership by an ILEC affiliate makes them a "successor or assign" of an ILEC within the meaning of Section 251(h).

The Commission itself recognizes that not just any affiliate would be exempt from "successor or assign" status under Section 251(h). The Commission's stated test -- that the affiliate must be "truly separate" from the ILEC and receive "no unfair advantages" from the ILEC -- cannot possibly be met by a Section 272-style affiliate. For example, such an affiliate can share the ILEC's name; joint market with the ILEC; compensate management according to the ILEC's earnings; and share building space, equipment (other than transmission and switching), and administrative services (include human resources and legal). The prices paid by the affiliate to the ILEC also are not real cost inputs, but merely pocket-to-pocket transfers within a larger corporate enterprise. If the ILEC were allowed to install or transfer the electronics in the network to the affiliate, moreover, the potential impact on competitors could be dramatic: for example, the ILEC could move electronics in the loop feeder plant to the affiliate and thereby deny competitors access to these capabilities.

Qwest believes that it would be difficult to design an affiliate structure that could hope to eliminate the incentive and ability of an ILEC to impede its competitors and to discriminate in favor of itself, short of a complete retail/wholesale split similar to that proposed by Qwest's subsidiary, LCI International Telecom Corp., in its January 1998 "Fast Track" petition. But if the Commission chooses to pursue the separate affiliate approach, it must require measures to establish its separate character and eliminate unfair advantages. These should include: (1) a prohibition on ownership of local network facilities; (2) no joint marketing, (3) no resale by the affiliate of the ILEC's local exchange services; (4) no joint ownership or sharing of equipment, buildings, and administrative services; (5) no sharing of corporate or brand names; (6) application of a "pick and choose" rule to any interconnection agreements between the ILEC and the affiliate; and (7) FCC approval of a compliance plan.

Qwest strongly supports the Commission's proposals to strengthen collocation requirements. We support the adoption of national standards for collocation and the provisioning of local loops for advanced services; a requirement that ILECs permit the collocation of switching and routing equipment; the adoption of such options as cageless collocation and subleasing; and measures to ensure nondiscriminatory allocation of central office space.

Qwest also supports the proposals to improve competitors' ability to obtain timely, nondiscriminatory access to unbundled, conditioned loops. Specifically, Qwest supports the adoption of national rules requiring timely and

efficient access to advanced network elements (whether dark fiber, DS-3, OC-N, xDSL-conditioned loops or loops equipped with electronics); improvements to OSS for ordering advanced network elements; and rules prohibiting discrimination.

The Commission should also clarify and broaden its definitions of network elements, as necessary, to ensure that the full functionalities of ILEC advanced networks are available to competitors -- including access to all electronics in the network and interoffice packet transport and switching. These measures are essential, because ILECs continue to stonewall competitors in their requests for access to advanced last mile connections. The Commission also should order ILECs to provide competitors with access to dark fiber in the loop and interoffice plant, as a means to speed deployment of advanced services. Qwest believes it is critical to address the digital loop carrier problem associated with obtaining to across-the-board xDSL capability.

Finally, the Commission should seriously consider adopting a regulatory mandate that ILECs (particularly larger ILECs) be required to deploy advanced services at a specified rate over the next several years. The Commission also should require ILECs to respond to the specific demands of end users and carrier-customers by deploying advanced facilities, lighting fiber, and so on. The Commission must recognize that no matter how it structures a separate affiliate, the ILECs have few incentives to pick up the pace of advanced services roll-out. Deregulation merely allows ILECs to charge consumers a supra-competitive price for advanced services. ILECs also will remain reluctant to cannibalize their current

services by introducing faster, cheaper new services. They also still are large, inefficient, and less likely to innovate than their competitors; yet they can stymie the ability of competitors to roll out advanced services because of their fundamental and enduring control over the last mile.

Qwest applauds the Commission's goal of speeding the arrival of advanced services to the American public, and stands ready to do that with its network; but without regulatory mandates, the last mile is likely to remain a largely insuperable barrier.

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**Before the  
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Washington, D.C. 20554**

In the Matter of

Deployment of Wireline Services Offering  
Advanced Telecommunications Capability

CC Docket No. 98-147

**COMMENTS OF QWEST COMMUNICATIONS CORPORATION**

Qwest Communications Corporation ("Qwest") hereby respectfully submits its comments in response to the August 7, 1998 Notice of Proposed Rulemaking issued in the captioned proceeding. 1/

Qwest is a multimedia communications company offering a full range of voice, data, video, and information services domestically and internationally. Qwest is close to completing the construction of a \$2.5 billion state-of-the-art, high-capacity, advanced fiber optic telecommunications network across the United States. Effective June 5, 1998, LCI International Telecom Corp., one of the nation's fastest growing long distance companies, became a wholly owned subsidiary of Qwest. Qwest Communications International, Inc. ("QCI"), the indirect parent of Qwest, also recently acquired EUNet International, a provider of Internet services throughout Europe. On September 14, 1998, Qwest announced the proposed

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1/ Deployment of Wireline Services Offering Advanced Telecommunications Capability, CC Docket No. 98-147, et al., Memorandum Opinion and Order and Notice of Proposed Rulemaking, FCC 98-188, released August 7, 1998 ("Advanced Services Order" and "Advanced Services NPRM" or "NPRM").

acquisition of Icon CMT Corp., a leading provider of integrated Internet web solutions including Internet hosting, access, backup and related services.

Qwest's vision is that the availability of massive quantities of bandwidth will spur demand for services that have not even been imagined yet. The lack of capacity and competitive access in the last mile is what holds back this development. The Commission should do everything it can to accelerate last-mile investment -- but on the basis that ensures this crucial capability is available to all service providers.

Structural separation can make ILEC discrimination easier to detect and punish, but only if separation is done on the right basis. Unfortunately, the NPRM draws separation lines in the wrong place, with local network investment in both the old operating company and the new affiliate. The NPRM proposal also fails to include sufficient controls on anticompetitive action by the overall ILEC enterprise. As a result, the plan would only extend the ILECs' current dominance in the local market far into the future by eliminating competitors' ability to share in the network efficiencies of the ILEC, as Congress intended in the 1996 Telecommunications Act. 2/

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2/ 47 U.S.C. § 251(c)(3).

## **I. INTRODUCTION: QWEST'S ROLE IN BRINGING ADVANCED SERVICES ON LINE**

Qwest is on the cutting edge of deployment of advanced telecommunications capability throughout the nation. <sup>3/</sup> Qwest is in the process of constructing a nationwide, high-speed, state-of-the-art packet-switched Internet protocol (IP) OC-192 fiber optic network which will operate at speeds of 10 gigabits per second. When completed (scheduled for the second quarter of 1999), the Qwest network will span 18,449 miles in 130 cities, representing approximately 80 percent of the originating data and voice traffic in the U.S. <sup>4/</sup> The network is designed with 48 fibers, with extra capacity to add ten times as many fibers, and features a highly reliable bi-directional, line switching SONET ring architecture. Qwest is also establishing ten major 50,000 square foot "CyberCenters" that will offer a broad range of web hosting and multimedia applications for customers.

Qwest's international facilities include a 1,400 mile network that Qwest is constructing in Mexico. Qwest also is participating in a consortium building a transpacific submarine cable system connecting the U.S. to the Pacific

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<sup>3/</sup> For a more detailed description of the Qwest network and the services it provides, see Comments of Qwest Communications Corporation, filed September 14, 1998, in Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996, CC Docket No. 98-146, FCC 98-187, released August 7, 1998 ("Advanced Services NOI" or "NOI").

<sup>4/</sup> Maps showing the Qwest domestic and international network facilities are attached to these comments as Appendix A

Rim; has secured leased transatlantic cable capacity to London; and has an agreement with Global Crossing to use their cable to the Netherlands and Germany. In addition, Qwest's indirect parent, QCI, has acquired a European provider of Internet services, EUNet International. Via its subsidiaries, EUNet currently provides one-stop shopping for corporate Internet access in Europe, with a network spanning more than 30 countries.

Qwest provides a wide range of voice, data, video, and other services over its high-speed network, including domestic and international long distance services, Internet access, IP telephony, web hosting, and web content services. Qwest also provides services to other common carriers, including traditional voice, IP telephony, ATM and Frame Relay services, and sells dark fiber to other service providers. Qwest also recently announced a strategic alliance with Netscape Communications Corporation through which consumers will have one-stop shopping access to a wide range of services through the Netscape Netcenter portal site. Netscape also will be using Qwest's network to enhance the performance and bandwidth of its website -- one of the largest on the Internet.

Qwest's state-of-the-art high-speed network has the capability to offer many advanced capabilities to its customers. Its enormous capacity and speed, coupled with its packet-based, SONET ring technology, enable it to provide many services that were not possible until recently. For example, Qwest's new nationwide OC-48 IP network will be the first network to offer customers usage-based pricing and billing, which will provide customers with access to a high-

reliability source for virtually unlimited bandwidth to support sophisticated multimedia e-commerce and data applications without the costs of a dedicated leased line. As another example, Qwest's high-speed dedicated Internet access enables customers to use the network for robust bandwidth-intensive applications, such as advanced Web-enabled commercial real estate sites. The potential uses for Qwest's network are severely limited, however, by Qwest's inability to serve as a point of one-stop-shopping for customers seeking access to Qwest's high-speed network. As we discuss further below, it is essential that the Commission take the steps necessary to make those links available to end users and to competitive service providers so that the needs of end users will be met.

Qwest also has made significant contributions to promoting the use of high technology communications to further the goals of academic and research institutions, libraries, and other nonprofit entities. For example, Qwest will provide the backbone and POPs, in collaboration with Cisco Systems and Nortel, for the Abilene network. The Abilene network is an advanced native IP backbone network that will be made available to Internet2 member universities for purposes of academic research and testing. As Larry Irving, Assistant Secretary for Communications and Information, NTIA, recently observed:

The Administration has also partnered with the private sector in two different projects to improve the power of the Internet: the Next Generation Internet and Internet2. These projects will partner hundreds of millions of dollars in private investments with federal investment to promote a faster and more reliable network. Internet2, for example, is expected to transmit the entire

Encyclopedia Britannica in under a second and the  
entire Library of Congress in under a minute. 5/

The Abilene network will operate initially at speeds up to OC-48 (2.4 gigabits per second), and ultimately at speeds up to OC-192 (9.6 gigabits per second). Qwest also has been chosen to provide its native IP network for high-speed data, voice, and multimedia communications for the Corporation for Education Network Initiatives in California's (CENIC) CalREN-2 high performance, next generation Internet project.

In addition to its retail business, Qwest also has a substantial "carrier's carrier" business. Qwest helped finance the construction of its network, for example, by selling dark fiber in its conduit to competing long distance companies. Qwest also offers a wide range of services to interexchange carriers, including high volume capacity services (up to OC-192), conventional dedicated line services, and switched services. Qwest does not view its carrier's-carrier business as detracting in any way from its retail business; rather, its carrier's-carrier business helps provide the volume to pay for the deployment of advanced capabilities. Unfortunately, the ILECs do not view their investment in high capacity local plant the same way. In their Section 706 forbearance petitions, the RBOCs sought to have all of this advanced capability shielded from access by other

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5/ Speech of Larry Irving, Assistant Secretary for Communications and Information, National Telecommunications and Information Administration, Department of Commerce, before "Voice on the Net (VON) Conference," Washington, D.C. September 17, 1998.

carriers. 6/ In fact, they claim (without basis, as we show below) that they will not invest in such capability without the promise of a monopoly on such capability in return.

Whereas Qwest sells dark fiber, OC-N, and DS-3 services to current and future competitors. (interexchange carriers and LECs), the ILECs restrict the availability of similar high-bandwidth services in the loop plant to carriers such as Qwest. ILECs generally refuse to offer dark fiber, OC-N, and DS-3 unbundled local loops in their interconnection agreements. Additionally, for Qwest to lease such facilities to provide high speed access to customers such as universities or businesses generally requires entering into a cumbersome, time-consuming and expensive "Individual Case Basis" or "ICB" design and quotation process by the ILEC. The ILECs often base ICB on the extent of competition in the loop to the customer's premises. The process can take weeks to get just to budgetary bid point, with many months more to implement the offering; often the ILECs demand extremely long time commitments (e.g. five to seven years). This process is indicative of the problems faced by Qwest and others in delivering high-speed

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6/ Petition of Bell Atlantic for Relief from Barriers to Deployment of Advanced Telecommunications Services, filed January 26, 1998, CC Docket No. 98-11; Petition of US West Communications, Inc. for Relief from Barriers to Deployment of Advanced Telecommunications Services, filed February 25, 1998, FCC Docket No. 98-26; Petition of Ameritech Corporation to Remove Barriers to Investment in Advanced Telecommunications Capability, filed March 5, 1998, CC Docket No. 98-32; Petition of Southwestern Bell Telephone Company, et al., filed June 9, 1998, CC Docket No. 98-91.

advanced services to customers, who clearly demand and need the services, and of the utter dependency competitors have on the ILEC.

**II. THE FCC'S SEPARATE AFFILIATE PROPOSAL RESTS ON A FALSE ASSUMPTION: THAT COMPETITORS CAN ECONOMICALLY DUPLICATE THE ILECS' INVESTMENTS IN ADVANCED TECHNOLOGY.**

**A. The Act Recognizes and Makes Available to Competitors the Economies of Scale Inherent in the Ubiquitous ILEC Network**

The Commission correctly recognized in the Advanced Services Order that Section 251 of the Act applies equally to old and new network investment, to circuit-switched and packet-switched capability to voice and data, and to conventional and advanced/broadband technologies. <sup>7/</sup> Congress made no distinction based on technology or service, and it did not declare that competitive access to ILEC networks would be frozen in time. <sup>8/</sup> Rather, the principles underlying the Act's local-market opening provisions apply just as forcefully to next generation technology as to conventional technology.

As the Commission recognized in the August 1996 Local Competition Order, the economics of investment in local exchange plant are such that

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<sup>7/</sup> Advanced Services Order at paras. 11, 35, 40, 49.

<sup>8/</sup> See Advanced Services Order at para. 49 ("We reject BellSouth's argument that Congress intended that Section 251(c) not apply to new technology not deployed in 1996.").

competitors cannot possibly duplicate the ubiquitous ILEC local infrastructure. 9/ Rather, Congress concluded that local competitors should be able to employ the ILEC local network when it is more economic to do so, and construct facilities when it is possibly to justify the duplicate investment. As the FCC recognized, such an approach would jump-start local competition and provide competitors with the revenue stream to permit them to build facilities out gradually.

In adopting Section 251(c)(3), Congress also recognized that significant economies of scale govern the local network. 10/ Local competition could not hope to succeed against those economies of scale unless competitors could share in those economies. The Commission, in adopting its implementing rules, also recognized this fact:

The incumbent LECs have economies of density, connectivity, and scale; . . . the local competition provisions of the Act require that these economies be shared with entrants. 11/

Thus, for example, the Commission ordered the ILECs to make available as a network element the ILEC shared interoffice transport network. 12/

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9/ Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket Nos. 96-98, 95-185, First Report and Order, FCC 96-325, released August 8, 1996, 11 FCC Rcd 15499, at para. 11 (1996), aff'd in part and rev'd in part, Iowa Utilities Board v. FCC, 120 F.3d 753 (8th Cir. 1997), cert. granted, ("Local Competition Order").

10/ Local Competition Order at para. 11.

11/ Local Competition Order at para. 11.

12/ Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket Nos. 96-98, 95-185, Third Order on

The Commission concluded that competitors should not be forced to construct (even through leased ILEC dedicated transport) their own duplicate interoffice network. Instead, they may choose to purchase shared transport and benefit from the enormous economies of scale that are present in the ILEC interoffice network, economies that are the result of the high volumes of ILEC traffic and the fact that they ILEC begins with 100 percent of the local market.

**B. The Commission's Separate Affiliate Proposal Would Deny to Competitors Access to Essential Local Network Capabilities.**

The Commission's separate affiliate proposal appears to ignore the economic realities that underlie the Act. The Commission's proposal is based on the false premise that CLECs need only have access to ILEC conditioned unbundled loops in order to compete on a broad basis in the provision of advanced services, and that they can easily duplicate the other necessary elements of providing xDSL service. <sup>13/</sup> The Commission does not explain why the economics that have characterized the circuit-switched local exchange network would not apply as that network evolves to a broadband, packet network.

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Reconsideration and Further Notice of Proposed Rulemaking, FCC 97-295, released August 18, 1997, aff'd, Southwestern Bell Tel. Co. v. FCC, Case. No. 97-3389 (8th Cir., August 10, 1998).

<sup>13/</sup> As we discuss below, the Commission's logic would apply equally to other forms of broadband loops, such as T-1s, DS-1s and DS-3s, and OC-Ns. The point is that it is impractical, uneconomic, and contrary to the Act to require competitors to physically equip the raw transmission facility -- whether copper or fiber -- with electronics before they can employ the loop functionality.

The NPRM seems to assume that if xDSL conditioned loops, without the associated electronics needed to provide the loop functionality, are made available to CLECs, then it would be a relatively simple matter for the CLEC to collocate its own DSLAMs in each central office and provide its own advanced services. This assumption overlooks the economic realities that led the Congress to provide three different entry paths (interconnect facilities, buy UNEs, or resell ILEC retail services) for competitors to gain access to local markets. Resale and the ability to provide advanced services using UNEs are critical if the CLEC is going to be able to enter a market on a cost efficient basis. Before going further, Qwest acknowledges that inefficiency is a matter of degree. In certain dense, high-demand areas extra facilities investment may be practical. But our concern is with service to *all* potential customers, all of whom could benefit from the broadband applications Qwest's network supports. The genius of the Telecom Act is that it allows CLECs to share economies of scale where they exist and are meaningful to competition.

In the case of competing to provide xDSL advanced services, the difficulty becomes apparent when the economics of having to purchase and install a DSLAM in each central office, and the cost of obtaining dedicated transport to every central office, are considered on a regional or statewide basis. The discriminatory

cost differential that results from collocation costs alone make entry for CLECs difficult, if not impossible, as an economic matter. <sup>14/</sup>

The following example illustrates the impact of collocation costs alone on the economic equation, and their detrimental impact on the deployment of advanced services. <sup>15/</sup> Assuming 80 per cent <sup>16/</sup> of all local loops in the Dallas-Fort Worth LATA are capable of supporting xDSL services and assuming a penetration rate of 0.5 percent (equivalent to one third of LCI's 1.5 percent nationwide long distance market share at the time Qwest acquired LCI), and that the cost of collocation remains at approximately \$100,000 per central office, <sup>17/</sup> a CLEC that

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<sup>14/</sup> The fact that a separate affiliate of an ILEC must also pay for collocation would not change the analysis, since from the corporate-wide point of view, the payment is made from one affiliate to the other, with no impact on the corporate bottom line.

<sup>15/</sup> For a fuller discussion of the economics of competitive deployment of xDSL equipment, see "CLEC Access to xDSL Technology: A Necessary Predicate for Widespread, Competitive Deployment of Broadband Telecommunications Services," LCI International Telecom. Corp. White Paper, June 1998, filed in CC Docket Nos. 98-11 et al. ("LCI xDSL White Paper"). A copy of the White Paper also will be filed in the record of this docket as well.

<sup>16/</sup> This assumption is actually on the high side. In reality, fewer than 80 percent of the loops are likely to be capable of supporting xDSL services, and therefore the number of potential customers in each central office will be even lower.

<sup>17/</sup> This figure is a fairly typical ILEC non-recurring charge for a 100 square foot collocation space. See, e.g., Comments of Covad Communications Company on RBOC 706 Petitions, filed April 6, 1998, at 15. ("Comments of Covad on RBOC Petitions"). Southwestern Bell has amended its collocation tariffs to reflect lower rates prescribed by the Texas PUC. However, as discussed in the text, even if the collocation cage were brought down to 7.5 square feet and the costs reduced by a factor of 10 (to \$10,000), many central offices would still be unprofitable for a CLEC to serve given the cost differential.

wants to provide xDSL services will face a cost disadvantage attributable solely to its need to collocate ranging from \$5.50 per line (per month) in the central office with the greatest concentration of lines to \$1444 per line (per month) in the central office with the fewest lines. 18/ Put differently depending on the central office, it would cost the CLEC between \$5.50 per line and \$1444 per line more than it would cost the ILEC to provide xDSL services due solely to the collocation requirement.

Using this example, and assuming that a CLEC somehow could profitably serve customers in central offices in which its costs were \$10 per month per line more than the ILEC's (which is unlikely to be possible, given that the price of current xDSL offerings range anywhere from \$40 to \$150 per line per month), a CLEC could profitably offer xDSL services only in five of the 112 central offices in the Dallas-Fort Worth LATA. This leaves customers in 107 central offices who would not be offered competing xDSL services by CLECs. If one were to assume that a CLEC could only absorb a \$5 per line (per month) cost differential vis-à-vis the ILEC (a more reasonable, though still probably unrealistic, assumption) a CLEC could not profitably offer the service in *any* of the 112 central offices. That is so because, based on our calculations, there is no central office where the cost differential between the CLEC and the ILEC is as low as \$5.00. 19/

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18/ The source for the number of lines per central office is the 1995 ARMIS data on switched access lines.

19/ The point here is that because the CLEC must incur substantial up-front costs in connection with collocation, it must spread those costs among its customers in each central office. The CLEC will always have a cost disadvantage vis-à-vis the ILEC because of its need to incur collocation costs. Even if one assumes that the

Even if the non-recurring cost of physical collocation were reduced by many factors to a more reasonable level (such as the \$10,000 for cageless collocation proposed by Covad) 20/ and the minimum space requirement were only 7.5 square feet (for example, as agreed to by BellSouth in the Tennessee Section 271 proceedings), 21/ 48 central offices in the Dallas-Fort Worth area (almost half of the total) would not qualify as profitable, assuming that the CLEC could absorb a cost differential vis-à-vis the ILEC of \$5 per line per month.

Of course, any cost differential is discriminatory and anti-competitive. CLECs could absorb such a differential only if their other expenses (e.g. marketing overhead) could be reduced below the level incurred by the ILEC. More important, however, the figures just discussed do not include the CLECs' likely much higher transport and switching expenses and higher per line installation, maintenance and testing, engineering, and other costs. Thus, under even the highly optimistic (and unrealistic) scenario presented above, many central offices would be unprofitable to serve if the entrant were forced to install its own DSLAM in each central office.

In considering whether to adopt what amounts to a facilities-based entry model for advanced services, the Commission also must recognize that the

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CLEC can absorb some of this cost differential (through lower overhead or customer acquisition costs, for example), it still will not be able to cost-justify serving customers in less dense central offices.

20/ Comments of Covad on RBOC Petitions at 15.

21/ Here we prorate the assumed \$1500 monthly recurring charge, based on the smaller cage size (\$15 per square foot).